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SUBJECT: CHINESE INTEREST IN TAJIKISTAN INCREASES

REF: DUSHANBE 712

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CLASSIFIED BY: Necia L Quast, Charge D' Affairs, EXEC, DOS.

REASON: 1.4 (b), (d)

[11.](#) (SBU) Summary: Tajikistan's largest and most powerful neighbor, China plays an increasingly central role in Tajikistan's economic development. It has made massive state-led investments in Tajikistan's infrastructure, including roads and energy transmission lines, and Chinese imports increasingly dominate Tajikistan's markets. The reasons behind China's burgeoning trade include a shared political vision; Chinese interest in opening new markets to the west, and ultimately establishing an energy corridor to Iran; a Chinese willingness to make state-led investments for political reasons; and low Chinese wages. Some worry, however, that Tajikistan's increasing indebtedness to its eastern neighbor may limit its future economic freedom; already Chinese loans equal over 25% of Tajikistan's GDP. For better or worse, Beijing has made investments that western countries are unlikely to match. End summary.

CHINA TRADE: FROM TRICKLE TO TORRENT

[12.](#) (U) Despite a long history of trade between China and Central Asia along the Silk Road, China's role in Tajikistan has been limited in the last century due to geographical challenges and the civil war in Tajikistan. Not until 2004, twelve years after the establishment of diplomatic relations, was the first and only direct road link between the two countries opened. The tortuous route winds through some of the most rugged territory in Central Asia, cresting at the 14,311-foot Kulma pass, located 850 km by road from Dushanbe and 220 km from Kashgar in China. Despite the difficulty of overland trade, China's influence on Tajikistan's economy has mushroomed and now rivals that of Russia.

[13.](#) (C) According to the Tajik State Statistics Committee, between 2002 and 2008 trade turnover between Tajikistan and China increased nearly 50-fold, from \$9.7 million to \$466 million, over 80% of which (\$384 million) was accounted for by imports from China. In the first six months of 2009, however, Tajikistan's exports to China amounted to \$134 million, compared to imports of \$115 million. According to the Ministry of Economic Development and Trade, the increase in exports reflects stronger sales of aluminum, cotton, and minerals to China. Tajikistan also exports agricultural products and furs. Chinese

sources put trade turnover in 2008 at \$1.2 billion, dramatically higher than the official Tajik figure. According to business contacts, Tajik customs officials may not report a good deal of trade with China, especially that conducted by people closely tied to the presidential administration. President Rahmon's daughter herself is reputedly heavily involved in the China trade, bringing containers over the border at Kulma without being examined by customs agents or assessed import tariffs (reftel). Official statistics may under-represent the trade volume to hide the untaxed imports by the well-connected. Comment: The three-fold increase in exports to China over the past year is odd in light of official statistics showing overall exports have dropped by 50% compared to 2008. The Ministry of Economic Development and Trade had no explanation for this discrepancy when we asked. End comment.

14. (U) Much of China's investment in Tajikistan is direct, state-funded loans and grants to the Tajik government. Since 2004 China has provided nearly \$1 billion in soft loans for infrastructure development, with annual interest rates of 1% and eight-year grace periods before the first payment is due. Projects include electrical transmission lines, electrical substations, roads, and tunnels. The Chinese government recently expressed interest in investing another \$1 billion in hydropower generation and other infrastructure projects. As of 2009, the government of China is Tajikistan's single largest creditor, far ahead of Russia and Iran, as well as international financial institutions like the World Bank and the International Monetary Fund. According to Tajikistan's State Investments and Property Committee, from 2007 to 2009 Chinese foreign direct investment amounted to \$86 million. About 40 joint Chinese-Tajik companies operate in Tajikistan.

CHINESE INVESTMENT POLICY IS FOREIGN POLICY

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15. (C) Experts cite several reasons for China's rapidly expanding role in the Tajik economy. The two countries share an authoritarian political outlook. China is interested in expanding trade opportunities and influence along its western flank, including exploiting mineral resources and opening up new trade corridors. China makes state-led investments for political reasons that might not generate near-term economic dividends. Finally, Tajiks perceive Chinese products and labor as reliable and efficient. China has not been troubled by Tajikistan's poor business climate (in the World Bank "Doing Business" rankings Tajikistan places 159 out of 181 countries), because it does business the "local way" -- giving bribes and ensuring political support for its investments. Khodjimahmad Umarov, a professor of economics at the Institute of Economics under the Ministry of Economic Development and Trade, said both the Chinese government and Chinese private investors must be making some kind of under-the-counter payments to key Tajik government officials, simply judging by the speed with which Chinese projects clear the bureaucratic obstacles that mire so many businesses in Tajikistan.

16. (SBU) Jamshed Rahmonberdiev, the CEO of Somon Capital Investment Bank in Dushanbe, said China's indifference to the business climate extends even further. China's investments in Tajikistan clearly serve a political purpose as much as, if not more than, an economic purpose. No one in either the Chinese or Tajik governments is speaking about paying back Chinese loans. Indeed, Rahmonberdiev said, Tajik leaders appear to believe they will deal with loan repayments on the basis of the "friendship between countries policy," by supporting the Chinese politically, for instance on their treatment of the Uighurs in

Xinjiang or on Taiwan. With US \$2 trillion in gold and foreign currency reserves, the Chinese can easily afford this kind of political credit.

¶7. (SBU) Professor Umarov predicted that China's involvement in Central Asia will only increase in the years to come, underwriting more infrastructure projects. A key reason for China to develop energy and road infrastructure in the small market of Tajikistan is that it provides a beachhead for reaching other, larger markets in Central Asia and beyond. Accessing Iranian energy supplies is seen here as a key strategic Chinese goal. Within Tajikistan, the Chinese are particularly interested in mineral resources, including gold, uranium, silver, and mercury. Finally, although Tajikistan's market is small, Umarov said Beijing sees long-term potential. China has been engaging in a dumping policy here, he said, selling its low-quality products even cheaper than in domestic Chinese markets; this creates disincentives for producers in Tajikistan to compete with Chinese products and ultimately ensures that Central Asia will remain dependent on Chinese goods. (Comment: Given the very small size of the market in Tajikistan, it seems unlikely that China is worrying about it as a competitor. End comment.)

¶8. (SBU) A final factor is Chinese labor. In a nutshell, Chinese work for wages below even Central Asia's meager standards. Where Tajiks may earn US \$500 to \$700 a month as labor migrants in Russia, Chinese laborers work for US \$100 to \$150 on roads and other projects in Tajikistan. As one of the world's largest labor exporters -- the ratio of remittances to GDP in Tajikistan is the highest in the world -- it might be expected that employers would have all the domestic labor they could want here. According to reports, however, many Chinese-funded infrastructure projects stipulate that a large percentage of the labor is conducted by Chinese workers. The figure is said to be 70% for major road and energy projects. Despite the negative implications for the local labor market, China's ability to provide its own army of trained, low-paid workers makes it very competitive against Russia and the west.

TAJIKISTAN SELLING OFF ITS TERRITORY?

¶9. (SBU) Some suspect that Tajikistan may be ceding territory in exchange for investment. China has had a territorial dispute with Tajikistan dating from the Soviet era and before.

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According to some media reporting and contacts among opposition parties, after Tajik independence China demanded over 20,000 square kilometers from Tajikistan -- almost 14% of Tajik territory. After long negotiations, an agreement was signed in which Tajikistan gave 990 square kilometers (0.7 percent of its total territory) in the Murghab area to China.

MAJOR CHINESE PROJECTS

¶10. (U) Chinese firms are involved in a number of major projects in Tajikistan in energy, roads, mining, telecommunications, and other sectors. According to Rahmonberdiev, China Heavy Machine Corporation is looking at five large-scale projects connected to the Talco aluminum concern, Tajikistan's lone major industrial enterprise. Somon Capital is planning to conduct the initial public offering for all five projects. One project would build an alumina processing facility and a chemical plant in Yovon.

The Chinese company SinoHydro is considering investing in the 200 Megawatt Nurobod-1 hydropower project in central Tajikistan. But political instability in the region reportedly is creating delays in project development. China is working in electrical transmission, funding several major projects, including the North-South power line connecting Tajikistan's two largest cities, Dushanbe and Khojand, due for completion this year.

¶11. (U) One of Tajikistan's greatest needs is transport infrastructure. While some road projects are being underwritten by the Asian Development Bank and the Japanese, the government of China is by far the biggest bilateral investor. China has provided a loan to rehabilitate Tajikistan's most important road link connecting Dushanbe with the Soghd region to the north. China is also building two tunnels: Shahrستان, 180 km north of Dushanbe, and Shar-Shar, 80 km east of Dushanbe. According to recent news reports, two Chinese companies are considering building a cement plant in President Rahmon's home district of Danghara.

¶12. (U) By all accounts China is interested in Tajikistan's mineral resources. While Tajikistan has most of the elements in Mendeleev's Table, it has little money to develop the expensive infrastructure required to exploit these resources. At the moment, the Chinese are mainly interested in gold and aluminum. In 2007, Chinese company Zijin Mining Group Co., Ltd., bought a 75 percent stake in the Zeravshan Gold Company from UK-listed Avocet Mining. Zeravshan, which has been operating since 1996 and accounts for the majority of gold mined in Tajikistan, produces the Dore alloy, which is domestically refined to produce both pure gold and silver. China is in Tajikistan's telecommunications sector through cell phone provider TK-Mobile and supplies telecommunications equipment from ZTE and Huawei Technologies to practically all state and private telecom companies in Tajikistan.

BUT NOT ALL SMOOTH SAILING AHEAD

¶13. (SBU) While most here see Chinese investment as an unmitigated plus, some have concerns about the price Tajikistan will ultimately pay. A large portion of the Chinese investment in Tajikistan (over US \$1 billion as of July 2009) has come as loans through the ExIm Bank of China. In fact, over 50% of all Chinese ExIm loans to Central Asia have gone to Tajikistan, the region's poorest country. The Chinese presumably are well aware that Tajikistan cannot repay these loans in time. Professor Umarov said the Tajik government is likely to begin renegotiating many loans that are coming due next year. Already the government of Tajikistan has requested a three-year delay in repaying debts due this year for investment in a tobacco factory in Dushanbe. While officials at the ministries of Finance and Economic Development and Trade say that Tajikistan will begin repaying debts to the Chinese ExIm bank by the second half of 2011, some speculate that Tajikistan will end up granting China concessions on mineral rights, Tajik companies, or even outright territory in exchange for forgiving the loans.

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¶14. (SBU) Events in China can have repercussions here. According to media reports and the Ministry of Transportation, since mid-July the border traffic between China and Tajikistan has nearly stopped in the wake of the violence between ethnic Han and Uighurs in China's Xinjiang Province. Yormahmad Faqirov, the deputy customs chief in Tajikistan's eastern Badakhshan region, said that before the Xinjiang violence, some

25 vehicles loaded with goods crossed the border every day. But since the riots began in Urumchi, the capital of Xinjiang, the rate has slowed to just three or four vehicles a day. Tajik trader Nigina Vatanbekova, who just returned from Xinjiang, told RFE/RL that she hid in several hotels during the weeks of unrest and returned to Tajikistan without any goods. She added that Chinese border guards are searching all computers and mobile phones and deleting all photos taken in China. The Chinese are nevertheless continuing to develop trade with Tajikistan. In Tashkurgan, 78 kilometers from Kulma, in China's autonomous Tajik region, a huge wholesale market is due to be completed in 2012 which designed to service trade between China, Tajikistan and Pakistan. The new market will reorient Tajik traders from Urumchi to Tashkurgan -- and away from the epicenter of unrest.

¶15. (SBU) Comment: In meetings with Embassy economic staff, Tajik officials can almost always be counted on to bring up China's extensive investment in Tajikistan and compare it with the more modest, or in some cases non-existent, involvement of western countries. The implication, sometimes even stated openly, is that if the United States does not pony up, Tajikistan's wealth of opportunities will be gobbled up by the Chinese. The issue brings up a distinction between Chinese and western investment that most Tajik government officials fail to grasp: the U.S. government cannot command private American firms to invest in Tajikistan. Our focus has been on improving the investment climate so that western companies may choose to come here on their own accord. In view of China's activity, however, the Tajik misunderstanding makes some sense. Beijing has shown itself willing to make key investments here that achieve long-term political goals, even if they offer little profit. Though generally wary of allowing any one country to much influence here, for now, the government does not appear concerned about what price it may pay down the road for Chinese investment.

End comment.
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